

Impact on Associates

CareFirst

Less than Age 45

Age 45 or Greater

Less than 10 Yrs of Svc

47% of Total Associates
Average Associate:
\$34,000 Annual Salary
Age 32 w/ 3 Yrs of Svc

Health: (94)
Paid Time Off: 28
Retirement: (8)
Incentives: (113)

(187) -7% of pay

12% of Total Associates
Average Associate:
\$48,500 Annual Salary
Age 50 w/ 3.5 Yrs of Svc

Health: (94)
Paid Time Off: (6)
Retirement: (168)
Incentives: (243)

(510) -13% of pay

10 or More Yrs of Svc

21% of Total Associates
Average Associate:
\$49,000 Annual Salary
Age 39 w/ 14.5 Yrs of

Health: (94)
Paid Time Off: (6)
Retirement: 1
Incentives: (245)

(344) -8% of pay

20% of Total Associates
Average Associate:
\$58,000 Annual Salary
Age 51 w/ 20.5 Yrs of

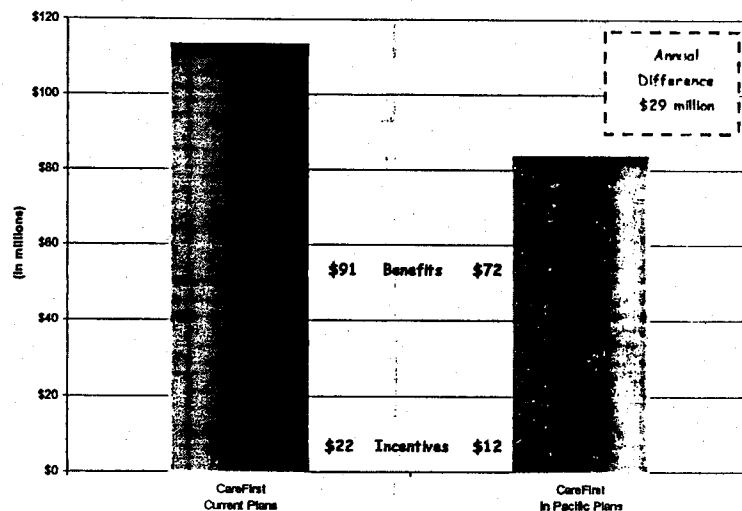
Health: (94)
Paid Time Off: (7)
Retirement: (188)
Incentives: (387)

(676) -14% of pay



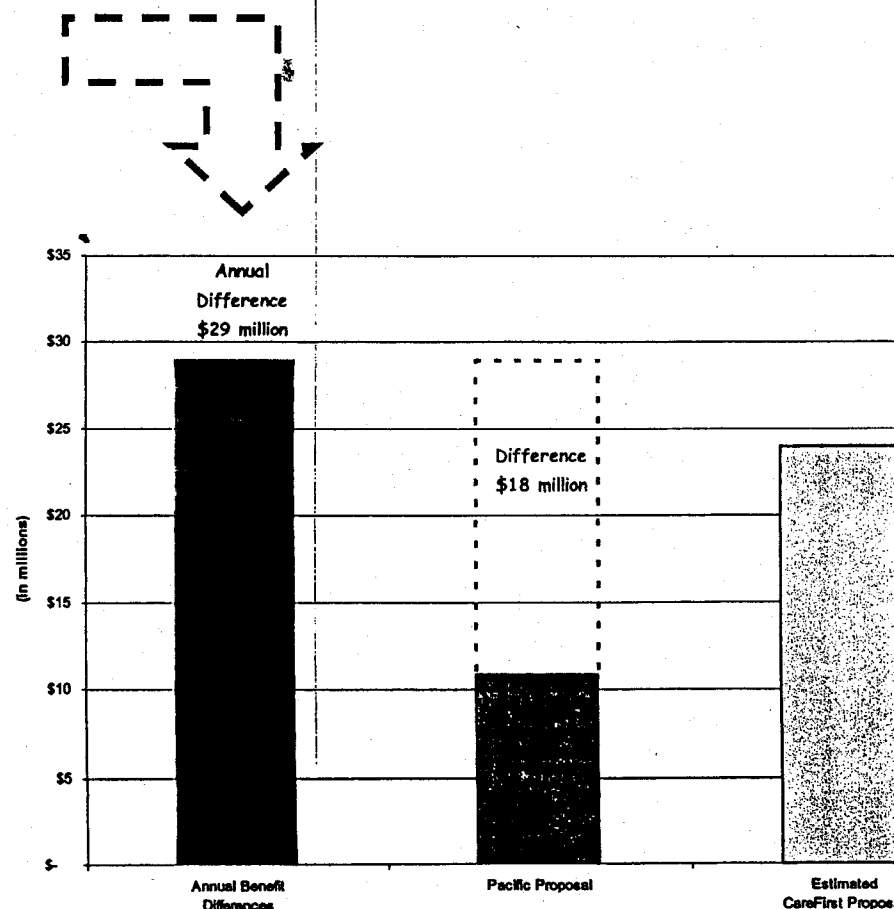
Annual Benefit Differences

CareFirst



CareFirst Proposals

- Formalize 401(k) Profit Sharing
- More Extensive Pension Grandfathering
- Manage Health Benefit Differences



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Retention Bonus

CareFirst

Title	Target Award	Percent Eligible	Eligible #	Total Payout
Senior Vice President	1.5	100%	8	\$ 2,895,000
Vice President	1.0	100%	23	\$ 3,877,000
Director	0.5	30%	36	\$ 1,697,000
			67	\$ 8,469,000

Invest in 60 - 70 Key Management Associates

- *Maintain Stability of Operations and Value of Company*
- *Provide Management Support for Transaction*
- *Minimize Risk of Talent Defection*

Paid Upon Closing or If Deal is Not Completed



Transaction Related Goals

CareFirst

- ☐ Complete the Transaction
- ☐ Retain Senior Management Pre-Closing
- ☐ Retain Senior Management Post Closing
- ☐ Fairly Compensate Senior Management in a Timely Manner

Purpose:

- Incentive to Close a Favorable Transaction
- Align the Interests of Management with the Interests of Stakeholders
- Facilitate Smooth Integration

Payment Made 12 months After Closing

Amend EVP Contracts - Defer Change of Control Decision for 12 months



Merger Incentive and Excise Tax

CareFirst

Participants	#	% of Price	Total Payout
CEO	1	0.7%	\$ 9,100,000
Executive Vice Presidents	<u>6</u>	<u>1.2%</u>	<u>\$ 15,600,000</u>
	7	1.9%	\$ 24,700,000
Excise Tax			\$ 16,657,480

2003

Payment Made 12 months After Closing

Amend EVP Contracts - Defer Change of Control Decision for 12 months

Issue for Discussion:

Retention Bonus if Deal is Not Completed

Payment Made 12 Months After Transaction is Abandoned (2.5-3.5x Base Salary)



Compensation Related Costs

CareFirst

	<u>CareFirst</u>	<u>Pacific</u>	<u>Difference</u>
Associate Programs			
Base Pay	\$ 251.5	\$ 251.5	\$ 0
Incentives	\$ 21.8	\$ 11.4	\$ (10.4)
Benefits	\$ 91.0	\$ 72.0	\$ (19.0)
Executives Compensation			
LTIP	\$ 19.1	\$ 19.1	\$ 0
SERP	\$ 22.6	\$ 22.6	\$ 0
Change of Control	\$ 14.0	\$ 14.0	\$ 0
Retention	\$ 8.5	\$ 8.5	\$ 0
Merger Incentive *	\$ 24.7	\$ -	\$ (24.7)
Excise Tax	\$ 30.7	\$ 14.0	\$ (16.7)
Total	\$ 483.9	\$ 413.1	\$ (70.8)

* Merger Incentive and associated Excise Tax and Gross-up are under review at Pacific



Potential Change of Control Payments (Projected as of April 1, 2003)

EXECUTIVE	Jews	Wolf	Kaplan	Devou	Chaney	Picciotto	Vecchioni	Felber*	Other Executives	Total
Prior Earned Compensation										
Accrued Qualified Pension Benefit	0.14	0.17	-	0.14	0.14	0.51	0.31	0.46	-	1.87
Accrued Supplemental Pension Benefit	5.25	2.88	0.48	1.25	2.00	1.44	1.04	1.40	-	15.75
Accrued Actual Long Term Incentive Grants	1.56	0.52	0.51	0.46	0.44	0.34	0.32	0.26	1.42	5.84
Prior LTIP Deferred Compensation Awards	1.38	0.57	0.15	0.42	0.36	0.31	0.21	0.21	1.08	4.68
Total Prior Earned Compensation	8.34	4.15	1.15	2.26	2.93	2.61	1.88	2.33	2.50	28.13
Payments Due Upon Actual Termination of Employment in Connection with a COC and Substantial Diminution of Duties										
Multiple of Salary and Annual Incentive	3.05	0.86	0.73	0.68	0.64	0.56	0.50	0.51	0.96	8.50
Payment for Non-Compete	2.18	0.45	0.39	0.38	0.36	0.31	0.28	0.30	0.00	4.64
Pro-rated Current Year Annual Incentive	0.16	0.05	0.04	0.04	0.04	0.03	0.03	0.03	-	0.42
Non-Accrued Long Term Incentive Grants	2.39	0.76	0.75	0.67	0.65	0.50	0.47	0.37	2.07	8.63
Increase in Supplemental Pension Benefit	2.31	-	1.69	0.98	-	-	-	-	-	4.98
Personal and Health Benefits	0.30	0.03	0.03	0.03	0.03	0.03	0.03	0.01	-	0.51
Total Payments	10.40	2.16	3.64	2.78	1.71	1.43	1.31	1.22	3.03	27.68
Total Contractual Obligation	18.74	6.31	4.78	5.03	4.64	4.04	3.19	3.55	5.54	55.81
Merger Incentive (Assuming \$1.3 Billion Transaction)	9.10	3.60	2.30	2.30	2.30	2.80	2.30	-	-	24.70
Retention Bonus for Key Management	-	-	-	-	-	-	-	0.45	8.05	8.50
Total Top Management Payout (Not Including Excise Tax)	27.84	9.91	7.08	7.33	6.94	6.84	5.49	4.00	13.59	89.01
Total Excise Tax and Gross-Up for Total Top Management Payout	11.61	3.40	3.35	2.98	3.10	2.11	2.39	0.63	1.10	30.66
Gross Total Top Management Payout	39.45	13.31	10.43	10.31	10.04	8.95	7.88	4.63	14.69	119.67

* M. Felber - SVP, Sales has current employment contract and is eligible for Retention Bonus but not Merger Incentive.

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